Keep the Security in Social Security!
GLOSSARY OF KEY TERMS

Solvency - The ability of the program to pay scheduled benefits with scheduled financing. This includes payroll tax revenue, social security surpluses and interest earned on social security surpluses.

Social Security Surpluses - In 1983 Congress increased payroll taxes to 12.4% in an effort to create a surplus that would provide extra financing for social security in light of impending demographic shifts. These surpluses were subsequently borrowed by the Federal Government to mask budget deficits and must be repaid with interest.

Payroll Taxes - Social Security is funded by a 12.4% mandatory payroll tax on the first $90,000 of an employee's income ($90,000 is the FY2005 Income Cap) 6.2% of this tax is paid by the employee and 6.2% is paid by the employer.

Social Security Trustees Annual Report- This is a yearly update of the current and future financial status of the Social Security program. The report uses demographic, economic and programmatic factors to evaluate the future of the program. All previous reports can be found at www.ssa.gov.

> **2018** - The year Trustees project that the benefits the program pays will be larger than the payroll tax revenue it receives.
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> **2042** - The year the Trustees predict the program will no longer be solvent. The Trustees estimate that the program will be able to pay 73% of scheduled benefits.

Congressional Budget Office - The Congressional Budget Office was created by Congress to provide non-partisan analysis for economic and budgetary decisions. It has also issued a report concerning the health of the Social Security program.

> **2019 -** The year CBO projects that the benefits the program pays will be larger than the payroll tax revenue it receives.
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> **2052** - The year CBO projects the program will no longer be solvent. CBO estimates that the program will be able to pay 80% of scheduled benefits.

Unfunded Liability - The program is expected to have $3.7 trillion in unfunded liabilities over the next 75 years. Over the course of 75 years the social security administration will not be able to pay $3.7 trillion of its scheduled obligations.

> **$10.7 Trillion -** This is the amount of expected unfunded liabilities over eternity. This time frame could span anywhere between 200 to 500 years. Numerous actuaries have asserted that projections over such an abstract time frame are inherently inaccurate.

Actuarial Balance - The difference between summarized income rate and summarized cost rate over a given period of time. According to the trustees, the actuarial balance is projected to be negative 1.89% of payroll taxes. This means that if payroll taxes were raised by 1.89 percentage points, the system would be solvent over 75 years. CBO projects this ratio to be 1.00 percentage point.

The President's Commission to Strengthen Social Security - The President established a commission in 2001 to evaluate how best to strengthen social security. Although the members of the commission are on the record in support of privatization, allowing workers to invest in the stock market to help fund their retirement, there was not a general consensus on how best to implement Social Security Private Accounts. The Commission presented 3 separate proposals. Model 2 has been most closely associated with the President's preferred method of reforming the system.

Private Accounts - Accounts owned by a worker that can be used to invest in the stock market, bond market or a combination of the two.

Carve-Out Accounts - These accounts would divert current payroll taxes out of the Social Security Trust Fund and into individual private account. Over the course of 10 years, diverting 2.4% of employee payroll taxes would result in approximately $2 trillion in lost revenue for the traditional social security system.

Add-On Accounts - These accounts would allow an employee to make additional contributions to a personal account on top of their traditional social security contributions.

Wage-Indexing - Currently initial social security benefits are based on the rate wages increase. Wages usually rise faster than inflation and reflect the general increase in the standard of living for a generation.

Price-Indexing - Would base a retiree's initial benefit on the inflation rate. The rate of inflation is determined by the *Consumer Price Index.* This would result in a major decrease in traditional retirement benefits. A person that retires in 2075 will receive a 46% decrease in social security benefits.

Privatization Tax (or "benefit offset") - Portion of the private account used to cut Social Security benefits dollar for dollar. Individuals who chose to have a private account would have this automatically deducted from their Social Security benefit at retirement.

Transition Costs – The cost of diverting money from current payroll taxes to private accounts. The system must still pay benefits to current retirees, diverting funds creates a deficit that must be immediately filled. According to the Center for Budget and Policy Priorities, these costs amount to $1.4 trillion over the first 10 years (2009-2018) and $3.5 trillion over the next 10 years (2019-2028). Total costs $4.9 trillion. We must also began to account for the costs of establishing a new administrative structures

Social Security Disability Insurance (SSDI) - This program is administered by the Social Security Administration. It serves the needs of 7.5 million beneficiaries and is funded by payroll tax contributions. Any change in the formula used to calculate social security benefits will affect the level of benefits provided to these beneficiaries.

Survivors Benefits - Survivor benefits are paid to children under the age of 18 who have lost a parent. Widow/widower's can also receive survivor's benefits. These benefits are funded by payroll tax contributions.

Replacement Rates – Percentage of a workers pre-retirement wage replaced by Social Security benefits. The current system has a replacement rate of 41.9% (38.7% after Medicare part B deductions)